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Agricultural ECONOMICS

Economic Development

Gamblers, Gambling, and Government

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Introduction

Access to legalized gambling in the United States and in Indiana is on the increase. Today, 36 states and the District of Columbia sponsor a lottery, 39 states allow either pari-mutuel racing or off-track betting, land-based casino gambling exists in Atlantic City, Las Vegas, and on numerous Indian Reservations around the country, and riverboat gambling is expanding in many states, including Indiana. This expansion in the number and variety of gambling opportunities means that a greater number of citizens have access to gambling on a regular basis.

The gambling industry's rapid growth has been fueled by governments that view gambling as a palatable way of raising revenues without imposing involuntary taxes. Increased access to gambling has also raised concerns that some individuals who gamble will develop gambling problems and that the government should not be in the business of sponsoring gambling.

This publication discusses the various types of gambling behavior, the types of games that gamblers play and the types of gamblers who play them, and some of the arguments surrounding government sponsorship of gambling. (A related publication, *Is Riverboat Gambling an Effective Economic Development Strategy for Indiana Communities?*, EC-688, discusses the local economic development implications of riverboat gambling in Indiana).

Types of Gambling Behaviors

Types of Non-Gamblers

Abt, Smith, and Christiansen (1985) have classified gambling behaviors of individuals into categories. There

are three types of *non-gamblers*: (1) those who, for personal or religious reasons, choose not to gamble; (2) those who do not gamble because it does not interest them; and (3) would-be gamblers, who do not gamble because they do not have access to gambling or do not feel they understand gambling well enough to do so.

Types of Gamblers

There are eight types of *gamblers*. It is hard to determine the proportion of gamblers that fall into each group because it is difficult to classify the behavior of individual gamblers. For example, two gamblers may spend the same amount on lottery tickets, but the one spending the greater portion of his/her income on lottery tickets runs a greater risk of crowding out spending on other, more necessary purchases.

Casual gamblers gamble due to impulse or chance, usually motivated by curiosity or for social reasons. Casual gamblers often do not understand the strategy or the odds of the games they play. A gambling characteristic that may be demonstrated by the casual gambler is that of betting on a horse because he/she likes the horse's name.

The casual gambler is distinguished from the *occasional* gambler, for whom gambling is a deliberate act. Occasional gamblers may partake in junkets to gambling destinations from time to time. Occasional gamblers may also be motivated by the hope of winning big, and as such may be regular purchasers of lottery tickets. Occasional gamblers generally have knowledge of the strategies and odds of the games they play.

The motivation for both the casual and occasional gambler is usually the entertainment value of the activity itself. For the casual and occasional gambler,

ity itself. For the casual and occasional gambler, acceptable substitutes to gambling are other forms of entertainment, such as going out for dinner or to a movie.

Risky gamblers enjoy the risk of gambling rather than the gambling itself. Acceptable substitutes for the risky gambler are more likely to be activities such as sky-diving or mountain climbing rather than low-risk gambles, since it is the risk that is the important element. However, the risky gambler does not exhibit uncontrolled behavior and is more apt to demonstrate skill and proficiency than reckless and foolhardy behavior.

Professional gamblers gamble for economic gain. Professional gamblers are concentrated in those few games for which a competitive advantage can be gained, primarily blackjack, a card game in which counting cards can provide an advantage over the dealer, and pari-mutuel betting, where research can improve one's chance of winning. Professional gambling behavior is often characterized by few and infrequent gambles of sizable wagers, since there are few opportunities in which the gambler has a distinct advantage.

For *habitual* gamblers, gambling is integrated into everyday life. As the term implies, habitual betting is a habit, and may be done with a minimal investment of time and deliberate effort. State lotteries are the games most closely associated with habitual gambling.

Serious gamblers treat gambling as one would treat a serious hobby. Serious gamblers tend to concentrate on those games which incorporate elements of both chance and skill, because those games are of sufficient complexity to sustain serious interest and because they prefer gambles in which they believe they have an advantage. Serious gambling is generally a controlled behavior, although serious gamblers may incur large losses. An example of a game in which serious gamblers typically partake is sports betting.

Obsessive gamblers partake in gambling as an escape. Obsessive gamblers may find the real world uncomfortable, and stress in their work or personal lives may be high. Lotteries do not generally draw obsessive gamblers, because they do not provide an environment in which to escape. Games that the obsessive gambler is typically drawn to are pari-mutuel racing and casinos, because they provide an environment which allows escape from the rigors of everyday life.

The *compulsive* gambler differs from the obsessive gambler in several important respects. Control is an important aspect of all obsessive behavior, so the obsessive gambler maintains control and usually stops before losing everything. Compulsive gambling goes beyond obsession, and compulsive gamblers do not have this control. Compulsive gamblers seek action, and concepts such as odds and probabilities of winning are irrelevant. Because of the need for continuous action, the casino—primarily table games—provides the optimal environment for the compulsive gambler. Compulsive gamblers become highly involved in their activity, and the distinction between the real world and fantasy

becomes confused. Compulsive gamblers may sacrifice everything to gamble, including personal relationships and family and work obligations. It is the compulsive gambler who is identified most clearly as having a serious gambling problem.

Types of Games and the Gamblers Who Play Them

Lotteries

Research suggests that there are three groups of people who tend to spend more on lottery tickets than the general population. Brenner and Brenner (1990) found that those who experience a sudden decrease in expected wealth due to such things as job loss, illness, or accident are more likely to purchase lottery tickets in an attempt to restore their income and to regain some degree of income security. This conclusion is supported by a study by DeBoer (1993), who, using county-level data from Indiana, found that the higher a county's unemployment rate, the more lottery tickets that are sold.

A number of studies have shown that the poor tend to spend a larger portion of their income on lottery tickets than those with higher incomes (Clotfelter and Cook, 1987, 1989; Borg and Mason, 1988; Brenner and Brenner, 1990). Income is highly correlated with occupation and education levels, with those having low incomes being employed in lower paying jobs with fewer opportunities for advancement. Individuals in careers which provide only limited income growth potential may view the lottery as their best chance to acquire wealth and income security. Hence, they may be more likely to spend a larger portion of their income on lottery tickets.

A third group that typically purchases lottery tickets is older people. An analysis of 54 winners of the Michigan lottery showed that only 13% of the winners were below the age of 35, while 63% of the winners were over the age of 50 (Brenner and Brenner, 1990). In addition, the winners typically had occupations characteristic of the poor or lower middle class. Older people with little accumulated wealth do not have as many years remaining in their working lives as younger people, and their opportunities for earnings growth are more limited. Hence, Brenner and Brenner argue, this group of people is more likely to view the lottery as their best chance of accumulating wealth and achieving some degree of income security.

Casinos

Casino gambling is a more interactive activity than the lottery, and therefore is considered more as a form of entertainment, where the action is continuous. The casino operator accentuates this action-oriented environment with noise and lights, by strategic placement of the slot machines and

table games, and through other means. The casino is a timeless environment, where there are often no clocks and where the lighting never changes so as to indicate daytime or nighttime. Each of these strategies is used to maintain action and to keep the gambler gambling as long as possible. Those who are drawn to the casino environment are generally not drawn by the hope of winning big, but by entertainment and action. Casual, occasional, serious, risky, obsessive, and compulsive gamblers are typically attracted to casino gambling.

Pari-Mutuel Racing

Pari-mutuel racing is more apt to draw those gamblers willing to invest time and money in pursuit of their gambling interest. The racing form is a publication that, with careful study, may assist the knowledgeable gambler in placing bets that may improve the chances of winning. Pari-mutuel racing is a mixed chance and skill activity, so it is particularly attractive to the serious, compulsive, and obsessive gambler, although casual and occasional gamblers frequent the racetrack as well.

Government Involvement in Gambling

Legalized gambling can provide economic benefits. In 1993, proceeds from lotteries alone provided over \$9 billion to state governments. But the expansion of gambling into states and communities that previously had few or no gambling opportunities available raises the issue of how involved government should be in allowing or promoting gambling. Objections to government involvement in gambling may be classified into three broad groups which are not mutually exclusive.

Religious and Moral Reasons

Some individual's religious beliefs hold that gambling is wrong and should not be engaged in. Others object to gambling for moral reasons, and their objection may not be based upon religious belief. Clotfelter and Cook (1989) suggest that the widespread popularity of lotteries may contribute to the moral degradation of society by changing attitudes toward work, saving, and perceived opportunities for upward mobility. It has also been argued that gambling is undesirable because it focuses too much attention on money and materialism, which creates unrealistic expectations of wealth.

Disproportionate Participation by the Poor

Gambling is objectionable to some because it is viewed as a tax that falls disproportionately on the poor. Hence, it is argued, the tax on gambling revenues is a regressive tax, placing much of the burden of taxation on those least able to

afford it. Further, many poor people receive some type of public assistance, which is intended to provide for necessities such as food, shelter, clothing, and transportation. For those receiving public assistance to spend a portion of their income on gambling runs counter to the intent of these public programs, and may place additional strains on those families already in financial need.

Those who disagree with the reasoning that gambling taxes are regressive argue that gambling taxes are voluntary—only those who gamble pay the tax. Restricting gambling for this reason is to refuse to allow individuals to spend their incomes as they see fit—in essence, believing that the poor do not spend their incomes wisely when gambling is an option (Clotfelter and Cook, 1989). It may also be argued that the lottery provides one of the few real chances for the poor to acquire wealth, and elimination of the lottery prevents the upward mobility of those few who win large lotteries.

Social Problems

Opposition to gambling because of the belief that it creates social problems falls into two categories: personal social problems and community social problems.

Those who oppose gambling on the grounds that it causes personal social problems argue that problem gamblers are unable to control their behavior, which can cause financial hardship on themselves and their families. They believe that government should not promote an industry that causes this kind of harm.

Community social problems are those ancillary activities that are often linked to gambling, primarily crime and community economic and social decline. The research here is inconclusive. Atlantic City, New Jersey, which legalized gambling in 1976, is often used as an example in which negative economic outcomes have occurred. Although economic growth and job creation have occurred in that city, there has also been a large increase in the crime rate, and poverty is still a persistent problem, even though the casinos have been economically successful. Abt, Smith, and Christiansen (1985) argue that persistent economic and social problems have more to do with the "... inability of the governments of Atlantic City and the State of New Jersey to use casino revenues and the casinos' economic contribution as effective redevelopment tools (p. 82)."

Summary

This publication has shown that there are many kinds of gamblers. Some gamblers treat gambling as a casual or occasional activity. Others treat gambling more seriously, and may devote a considerable amount of time and/or money to gambling. Not all types of gamblers are drawn to the same types of games. Lotteries tend to draw gamblers who dream of winning a large sum of money. Casinos and horse racing tend to draw gamblers who enjoy the excitement and action

that these activities provide. Most gamblers view gambling as entertainment, and are aware that the expected payoff in most gambling endeavors is negative, i.e., that the sum of all winning is less than the sum of all wagers. However, there are some who are unable to control their gambling behavior, and this may lead to problem gambling.

Gambling is also viewed as a source of tax revenue which keeps conventional, non-voluntary taxes lower. Gambling is viewed by some as a tool for local or regional economic development, but the evidence supporting this view is inconclusive (Broomhall, 1994). Supporters of legalized gambling consider gambling to be entertainment, a substitute for other forms of entertainment such as going to the theater or out for dinner. Still others view gambling, particularly the lottery, as being the only opportunity for some to achieve wealth.

Some believe that the government should not be in the business of promoting gambling. They believe that gambling-related activities such as traffic congestion, crime, and alcohol-related incidents outweigh the economic development benefits. Others argue that legalized gambling is a regressive form of taxation that places a heavier burden on the poor. Still others argue that gambling is simply wrong and that governments should not encourage the expansion of the gambling industry.

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